



April 29, 1999

Edward Kulik, Jr., Senior Vice President
The New Water Street Corporation
Building Management Office
55 Water Street
New York, NY

Re: Sale of capacity from emergency generators

Dear Mr. Kulik:

Following our meeting at the end of February, I have had a telephone discussion with Frank Magnani and we conducted some additional research into the emergency generator program.

First some information which may be of interest to you:

- ◆ Compensation to you for participation in the program would consist of two components:
 - payment for capacity from the retail energy supplier (e.g., NEV) who purchases your capacity; and
 - offsets to the payment you would otherwise make for electricity to your power supplier during the period of power generation. For example, assuming Con Edison were your power supplier, during the period of emergency generation, you, not Con Edison, would be supplying your own load, your electric meter wouldn't be turning, and you would not be paying Con Edison for electricity you used during such periods. Depending on the tariff under which you take electricity and your own costs of generation, the savings on your Con Edison payment could actually exceed your cost of generation.
- ◆ I have heard that some other participants in the emergency generator program are not seeking permit modifications and believe that their existing permits allow them to generate for the purposes of this program. I have no knowledge of their specific circumstances and whether these have any implications regarding your facility but you may want to double-check to see whether air quality regulations do, in fact, preclude your participation under your current permit.

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- ♦ An Independent System Operator ("ISO") is being established to take over from the utilities many of the responsibilities for managing the state's bulk power system. These responsibilities would include setting the rules governing the use of emergency generators to satisfy installed capacity requirements. The ISO is expected to become operational this coming fall and it is possible that it could change the rules that currently apply under the Con Edison program.

NEV is interested in purchasing capacity from your facility under the following proposed terms:

- ♦ 55 Water is responsible for receiving calls from Con Ed or the ISO, operating the generating facilities pursuant to the program rules, paying for the fuel and any O&M that may be incurred, paying any penalties as may be applicable for failure to generate as required under the program.
- ♦ 55 Water would retain the savings that result when its electric commodity bill is reduced during periods when it is generating
- ♦ NEV would pay \$30,000 per megawatt to 55 Water for installed capacity

Although the deadline for signing up emergency generators as capacity for this coming summer under Con Edison's retail access program rules would normally have passed, Con Edison is still short of capacity and they have extended the deadline. If, upon further review, you determine that it is possible for you to participate in the program this summer, we would be very interested in purchasing your capacity for this summer immediately. If not, we have a long term interest in purchasing your capacity and would be interested in continuing discussions in this regard as well.

I would appreciate hearing from you after you have reviewed this proposal. Please call me at 516-751-9800.

Sincerely,

Harry Davitian

cc: Frank Magnani, Plant Manager

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